

# *The City of Fairfax*

*Office of the City Manager*



February 28, 2012

The Honorable Robert F. Lederer, Mayor  
and Members of the City Council  
City of Fairfax  
Fairfax, Virginia 22030

RE: City Manager's Recommended FY12-13 Budget Transmittal Message

Dear Mayor Lederer and Members of City Council,

As required by our City's Charter, I am pleased to submit to you the recommended FY13 Budget for the City of Fairfax. The total FY13 Budget is \$164,306,976, a 12% increase from the current FY12 budget. The total budget for the city's General Fund, which supports most of the daily operations of the city totals \$122,344,468 which is 7.1% over the current year.

This budget message gives a brief overview of the city's proposed annual program of spending following a careful review of the ongoing needs of the city. The primary purpose of the budget adoption process is to ensure spending decisions of the city are consistent with 1) the long term vision of the city 2) the fundamental objectives of maintaining a respected and highly responsive government with unexcelled service levels, and 3) preserving our AAA bond rating which is, simply, an indication of the city's ongoing ability to meet the highest standards of stewardship, financially and otherwise.

The proposed FY13 budget was developed under challenging fiscal circumstances notwithstanding improving local and regional economic trends. Growth in the city's real estate tax base, which accounts for over 45% of the General Fund revenue, is continuing to see modest growth and is providing the city with some relief to support increased operating costs. Other significant revenue sources have demonstrated increases as well.

The major challenges impacting the city's ability to balance its budget in FY13 stem from several areas: the increasing costs of schools (which are accounted for in the city's General Fund) driven by higher per pupil costs compounded by an increasing student population; compensating for reduced cash reserves in the General Fund balance; providing minimal

compensation increases for employees; meeting the increased obligations of funding the city's two pension systems; efforts to restore the city's annual investment in its Capital Improvement Program to support minimum recommended standards; and the continuing levels of historically high debt service payments related to the financing of recent major reconstruction of the city's schools and civic buildings and open space purchases and development.

For several years the City Council and staff have engaged in episodes of budget belt tightening in response to the recession. Immediate past year's budgets have incorporated a number of expenditure reductions, many that are on-going, that have been necessitated by declining revenues or increases in expenses.

Over the past several years these reductions have been made to the General Fund budget:

- No merit pay for employees since FY2009,
- Halved employee Cost of Living Adjustment (COLA) to 2% in FY09, 1.75% COLA in FY10, 0% in FY11, 1.75% midyear COLA in FY12,
- Elimination of two holidays,
- Elimination of many Professional Association memberships, educational assistance for employees, training, awards programs,
- Elimination of certain General Government full-time, part-time and temporary positions,
- Contractual services reduced,
- Reductions in trash services,
- Reduced annual asphalt overlay programs,
- Reduced maintenance and repairs in city parks,
- Reduction of certain fringe benefits (health insurance, state retirement),
- Modification of certain pay practices.

Early indications for the preparation of the FY13 budget were that it would be very difficult to balance without substantial service cuts and/or increases in tax revenue.

The following items present a snapshot of the anticipated financial condition of the General Fund at the end of FY12 and the significant factors which influenced the FY13 budget preparation:

1. The General Fund balance is budgeted at 10.1% as of June 30, 2012, significantly reduced from that of prior years.
2. The School Board is seeking \$6.3 million in funding over FY12 levels. This is the major challenge behind the staff's recommendations in balancing the General Fund. Costs are expected to continue to rise over the next decade as both the contracted costs-per-pupil and total number of students rises. However, the cost of schools as a percentage of the city's budget, is still comparatively modest and represents a solid value for city taxpayers. FY13 is impacted not only by the \$6.3 million budget increase from FY12, but also from the \$700,000 increase in the adjusted FY11 tuition cost (identified in FY12) and an estimated \$1.4 million increase to the FY12 tuition

budget and a resulting \$630,000 increase required in the FY13 Fund Balance in order to adhere to the City Council's minimum reserve policy of approximately 10% of General Fund expenditures. The cumulative impact of these budget changes on the FY13 budget is \$9 million.

3. A potential liability for a real estate tax refund of \$1.6 million is included in current year budget changes, which impacts FY13 budget requirements.
4. The potential cost of \$550,000 to fund the demolition of the vacant Westmore School building is a projected FY12 budget change, impacting FY13 budget requirements.
5. Capital needs of the city are outpacing funding. For FY13, it is recommended that General Fund supported projects total \$4.1 million which, if approved, is 58% of the department managers' requests for adequate infrastructure maintenance and replacement funding.
6. As recommended last year, and repeated this year, a full one cent on the real estate tax rate is necessary for the Stormwater Fund. The current rate of one-half cent is insufficient to provide funding for adequate maintenance and improvements to the stormwater system and to begin to set aside funds to address the potential large investments necessary to meet the future federal and state stormwater quality standards. A rate increase of one-half cent will make available an additional \$403,000 in stormwater funding.
7. Meeting the city's required contributions to the two retirement systems (VRS and the city's supplemental system) will require an increase of \$750,000 over FY12 payments.
8. After three years of no merit pay adjustments for city workers, the recommended budget sets aside sums to award merit pay in the total amount of \$400,000. This resumption is consistent with several Northern Virginia jurisdictions which are implementing merit adjustments based on improving regional economy and an effort to remain competitive in the job market. While the city perhaps cannot *afford* the increase given other budget factors, we cannot afford not to. Increasing salary compression and the need to remain competitive suggest a return of the merit funding if only for one year.

In an effort to further trim the city's personnel expenses to provide capacity to fund merit pay, it is our intention to implement several changes to the existing overtime eligibility practices and to employee benefits programs. This will achieve savings of approximately \$200,000 in FY13. Further, we recommend a reduction of the minimum staffing level policy of the Fire Department with regard to the city's truck (ladder) company. This would reduce daily minimum staffing on the truck company from four personnel to three personnel. This will result in the city's minimum staffing policy being aligned with Fairfax County's. No employees will be

terminated with this change, rather, the staff hours saved will be used to cover vacant positions created by sick leave, injury leave, Family Medical Leave and training absences thereby reducing the frequency of callback overtime. This change to the minimum staffing policy will allow overtime expenses to be reduced by approximately \$212,000.

A freeze in longevity steps for public safety personnel is proposed, reducing costs by \$20,000. Finally, the "holiday-pay" overtime policy partially implemented two years ago in the Fire Department will be applied to the entire workforce for a savings of \$25,000. Each of these changes are difficult to impose inasmuch as they modify long standing practices, however, it is necessary to take these measures in order to create the savings which will allow a return to the use of merit pay.

9. There are no full time employee (FTE) staffing additions or reductions recommended in the FY13 budget. Nonetheless, we are expected to see a \$400,000 reduction in full time salaries due to the retirement of a number of senior employees with the resulting replacements being paid at a lower rate.
10. There will be no recommended change to Senior Tax Relief for FY13; increases approved for the current year will result in another \$100,000 in costs to the FY13 budget with no increase in benefit.
11. The CUE bus subsidy required from the General Fund will rise by \$290,000 in FY13. Multiple factors will cause additional pressure on the General Fund transfer during the next 5 years. No increase in ridership rates is recommended as most of the regional systems rates are projected to be unchanged.
12. The payment to the General Fund for utilities systems management support is reduced by \$180,000 for FY13 in accordance with recommended allocation methodology.
13. Increases in fuel and utilities are expected to rise by \$230,000 over FY12 levels.
14. Citywide annual debt service payments will decline by \$365,000 due to refunding of debt and normal amortization schedule reductions.
15. Non-education County contracts and miscellaneous budget cuts will allow cost reductions of \$712,000 over FY12 levels.
16. As an indication of the recession's loosening grip on the region, the anticipated revenues from meals tax, sales tax, BPOL, and personal property taxes will rise 6.1% or \$2 million over FY12 levels.
17. Fees collected for ambulance transports are expected to rise \$380,000 over FY12 levels.



18. State aid is expected to increase by \$330,000 over FY12 levels.

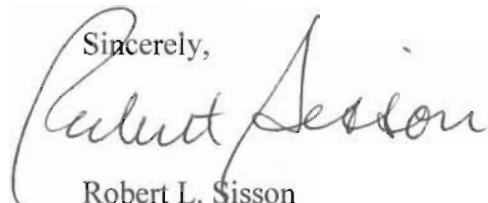
19. The Water Utility rate increase for FY13 is recommended to be 7.5% and the Wastewater Utility rate is recommended to increase by 12%, both implemented July 1. Costs are driven mainly by the city's obligation to pay its share of the upgrades at the Fairfax County wastewater treatment facility and the continuing costs of renovations to the city's water treatment facility in Loudoun County and related water system investment.

After a careful review of all of the anticipated changes to the General Fund for FY13, a shortfall of \$9.3 million existed (comprised of \$8.1 million General Fund operating deficit, \$800,000 increase in General Fund Balance required to maintain the city's policy of a minimum reserve balance of approximately 10% and \$400,000 required for stormwater projects). The projected shortfall is exceptionally large given the size of the city's budget. With diminished cash reserves and given that 54% of the city's General Fund expenditures are non-discretionary (services contracted with other agencies and therefore not reducible) and with the various departments minimally staffed; with other supplies and materials expense reduced to absolute minimums; the remaining discretionary expenses involve personnel; however, it would be unrealistic to assume that financially significant reductions-in-force can balance the General Fund budget. As unpopular as the notion of increased taxes is, we have few alternatives. Therefore, I have chosen to recommend funding the shortfall of \$9.3 million with an increase in the real estate property tax of 11.5 cents, from 94.2 cents to \$1.057 which will result in an average increase of residential property taxes for each parcel of 14.1%.

In summary, the City of Fairfax is well known as a community that offers superior services. Given the pressures on the proposed FY13 budget, we can continue to enjoy that same level of service if we can accept the proposition that maintaining that quality may require increased dependence on the real estate property tax.

We have worked diligently to bring you a proposed spending plan that continues the tradition of the highest quality of services for our community. We anticipate a vigorous discussion on the recommendations contained herein and we look forward to implementing your priorities following the adoption of the budget.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert L. Sisson", written in a cursive style.

Robert L. Sisson  
City Manager